



**“Mastek Limited Q1 FY19 Earnings Conference Call”**  
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**MANAGEMENT: MR. JOHN OWEN – GROUP CHIEF EXECUTIVE OFFICER**  
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**Moderator:** Good day, Ladies and Gentlemen. And a very warm welcome to the Q1 FY19 Earnings Conference Call of Mastek Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. Sharad Jain – Investor Relations team at Mastek. Thank you and over to you, sir.

**Sharad Jain:** Thanks, Ali. Good morning and Good afternoon to all of you depending on which geography you are logged in from. Welcome to Q1FY19 results of our company. The results and presentations have already been mailed to you earlier and you can also view them on our website at [www.mastek.com](http://www.mastek.com).

To take us through the results today and to answer your questions we have top management from our company, represented by Mr. John Owen – Group CEO and Mr. Abhishek Singh – Group CFO. John will start with a brief overview of the quarter which will be followed by Abhishek who will get into the details about financials of our company. We will then take a Q&A session.

I would like to remind all of you that everything said on this call that reflects any outlook for the future or which could be construed as a forward-looking statement must be viewed in conjunction with the risk and uncertainties that we face in our business. These risks and uncertainties are included but are not limited to what we have mentioned in our prospectus that is filed with SEBI or the subsequent annual reports that you can find on our website.

With that said, I would like to hand over the call to John. Over to you, John.

**John Owen:** Thanks, Sharad. Welcome to the Mastek team, that was a great start. In conjunction with that, I am pleased to report ninth consecutive quarter of growth, that is both top-line and bottom-line. But I think before we start I am probably more pleased to talk about the award that we received two weeks ago for the technical company of the year. That was given in honor to celebrate the outstanding contribution of companies that have excelled in building a profitable, sustainable and socially conscious business. And I think that is where Mastek’s heritage is being and I am pleased under the leadership of Abhishek and myself and the new team in conjunction with the promoters. We are keeping our heritage rich, but we are very confident in our future looking forward.

If I look at the regional sides, all our markets, the US, the UK and India, all grew on a quarter-on-quarter and a year-by-year basis. Obviously, the solid growth came out of the UK which is our mature market and that is where we have critical mass. And I think we are starting to see a steady performance as at the US as that organization integrates. But again, we have only been 18 months in the US market and I think we need to compare that on a more year-on-year basis as opposed to quarter-by-quarter, we just don’t have the critical mass yet.

The strength of our business is good because we are executing a very clear strategy that aligns all of the organization. And it is about how we address our customers and we have got a strategy

of building strategic customers. And I am pleased that those strategic accounts, we are delivering more services to those accounts, the average order value is up, and the contract term is up. And that hopefully translates into better predictability as we move forward. And that is the underlying transformation that the organization has been on for the last two years. But I think, again it goes back to the award, this is an organization that has a deep rooted value system and I would like to respect the 2,100 Mastekers that have basically delivered outstanding outcomes for our customers and also the internal clients that we have in Mastek supporting great and business support to our internal customers that obviously deliver great act for our external customers.

So, with that I will hand over to Abhishek to go through the numbers and give you a flavor of the detail.

**Abhishek Singh:**

Thank you, John. We will go through the financial deck that was circulated ahead of this call. And if you have it, we would move on to slide #5 which talks about the financial performance of Q1 vis-à-vis last year.

So, on a year-on-year basis we have had a good consistent revenue growth. Our operating income stood at Rs. 244 crore for the quarter, up 31.5% year-on-year in rupee terms. In constant currency terms it is up by 23.7%. Our total income stood at Rs. 247.2 crore, up 31.5% again, year-on-year. When you move on to profit, we have had growth in earnings and we have also had improvement in the quality of earnings, our EBITDA margins have expanded this quarter. So, starting with operating EBITDA, it stood at Rs. 30.9 crore versus Rs. 22.4 crore, up 38.2% year-on-year basis. Operating EBITDA expanded by 61 basis points. Total EBITDA stood at Rs. 34.1 crore as against Rs. 24.8 crore last year. Net profit stood at Rs. 22.5 crore versus Rs. 14.7 crore last year, which is a growth of 53.2% on a year-on-year basis. Net profit margins also expanded to 9.1% vis-à-vis 7.8% last year. Moving on to cash and cash equivalents, the collection continues to be strong, the DSO continues to be reduced and the total cash and equivalent as well as the fair value of the mutual funds stood at Rs. 200.4 crore as on 30th June. And if you compare it with last year this time we were at Rs. 150 crore and change. This is in context of the fact that we also repaid the first tranche of the \$10 million loan that we had taken for the acquisition of TAISTech 18 months back, we repaid \$1.25 million of the principle this quarter. Moving on to order backlog, the 12 months order backlog stood at Rs. 504 crore and change, i.e. £56 million vis-à-vis £41.1 million last year, so there is a healthy growth on order book as well on a year-on-year basis.

We move on to the next slide which has got a quarter-on-quarter comparison. Revenue for the quarter stood at Rs. 244 crore vis-à-vis Rs. 223.7 crore, that is a growth of 9.1% in rupee terms quarter-on-quarter. In constant currency terms, it is a growth of 6.7% and total income stood at Rs. 247.2 crore, which is again up 7.1% quarter-on-quarter. In terms of profit, operating EBITDA at Rs. 30.9 crore is up 11.1% on a sequentially basis. Operating EBITDA expanded by 23 basis points between the two quarters. The total EBITDA stood at Rs. 34.1 crore as against Rs. 35 crore. Net profit stood at Rs. 22.5 crore versus Rs. 19.4 crore last quarter, that is a growth of 15.9% on a quarter-over-quarter basis. And net profit margin expanded by 70 basis points to 9.1% for this quarter. Cash and cash equivalent at Rs. 200.4 crore versus Rs. 205.7 crore last quarter, and again, that is in the context of all the debt repayment that we did this quarter. Order

backlog compares to the last quarter at £56 million now versus £56.9 million last quarter, a marginal dip between the two quarters.

As we move on to the next slide, it is just a tabular representation of all the facts that we spoke about, so I am going to skip that and move on to slide #9 which talks about the operating metrics. We have continued to strengthen our business on all the operating metrics and we added seven new logos this quarter. Our total active client stands at 166. The top five clients contributed just shy of 40% revenue, that is 39.8%. Top 10 clients contributed 55.5% revenue. Our total employee base grew to 2,097, of which offshore had 1,353, on-site we had 744 employees as of 30th June. This number compares to 2,058 that we had last quarter of which 1,327 were offshore and 731 were onshore. And as I mentioned earlier, our DSO reduced significantly to 61 days as against 67 days last quarter. FX hedges for the next 12 months stood at £10.4 million at Rs. 91.5 per Pound.

Moving on to next slide, number #10, it has got the revenue analysis by market region, by industry segment and by contract type. Market region for this quarter, our UK was at 71.4% of the total revenue, US was at 26.6% of the total revenue and others which has basically got India business that came back at 2%. If I look at revenue by industry segment, Retail continues to be the largest at 36.9% of the revenue, Government was next at 31.5% revenue, Financial services at 22% and others at 9.6%. Revenue by contract type, T&M continues to be the mainstay of our revenue at 78.8% and fixed price at 21.2%.

If I move on to the next slide which is revenue by service line, the way we measure our business and report it as well, Application Development continues to be the back bone and the revenue stood at 47.9%, Digital Commerce increased to 24.7%, Application Support and Maintenance at 11%, BI and Analytics at 8.8%, Agile Consulting at 4% and Assurance and Testing at 3.6%.

So, that is the flavor of the revenue and the various dices that we talk quarterly. I will hand it over to Ali for Q&A session. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Madhu Babu from Prabhudas Liladher. Please go ahead.

**Madhu Babu:** Sir, on the Retail vertical which has gone very well this quarter, so how is the traction, what are kind of deal sizes on the oracle side which we are currently executing?

**Abhishek Singh:** Of course, we have had good traction in the Digital Commerce space and that has pushed our Digital Commerce revenue up this quarter. The deal sizes continue to increase every quarter and in Oracle Cloud commerce space, the first engagement continues to be in the \$1 million to \$1.5 million range, but our chase for the headless Architecture and Micro Services we have had our first success and we have also executed that as we speak, and that continues to grow from anywhere between the subsequent million-dollar range as a reference to \$2.5 million over multi year.

- Madhu Babu:** So, we expect the momentum to continue on the Retail side going ahead?
- Abhishek Singh:** Absolutely. The investments that we have made and the market opportunity that is out there, we would like to believe that we have to cash on this opportunity.
- Madhu Babu:** And the order book has been flat quarter-over-quarter, so any view on why it is so like that?
- Abhishek Singh:** I would say it is the combination of timing versus what we are looking at closing, but there are no concerns. As a lead indicator that is something that we are very hawkishly focused on.
- Madhu Babu:** And just one last thing from my side, on the UK Government side what are the new deals we are bidding, any outlook on the current existing projects? Thanks.
- Abhishek Singh:** So, we continue to cement our relationship and increase our wallet share. Our largest customers continue to be our biggest patron and appreciate the value that we bring on the table. And they have been introducing us on the newer deals with newer service lines and capabilities. So, to that extent we feel very bullish about. We have also been developing the propositions for the other departments where we have had sub-million pound worth of engagement over last 12 months as to how do we get the large deals and the multi-year deals. So, the momentum continues, Madhu.
- Madhu Babu:** And just one last thing, the net cash on balance sheet, what is it, because we have debt also if I am right?
- Abhishek Singh:** Correct. So, you have got Rs. 200 crore and change in cash and cash equivalent and we repaid \$1.25 million of that. So, the debt is down to Rs 61 crore, so we should be right around Rs. 140 crore odd.
- Moderator:** Thank you. Our next question is from the line of Dipanjan Basuthakur from Stewart and Mackertich Wealth Management.Ltd. . Please go ahead.
- Dipanjan Basuthakur:** I have a couple of questions, out of your 12 months order backlog which is at Rs. 504 crore, how much is executable this fiscal? And second question will be, out of the certain logos that we added this quarter, so what will be the average deal size of the total TCV, how much execution are we expecting there within this fiscal? And what will be approximate or ballpark figure, like the DSO what will be the direction from here onwards.
- Abhishek Singh:** So, let us take the first one where we are talking about the new logos and the order backlog. So, if you look at the £56 million 12 months order backlog that we are talking about, the easiest way for you would be to do the 9/12th of that because there is nine months that is left for us in this fiscal. And there is enough and more of opportunities which will fill in for what we call as book and ship, so you win and you execute, which is what gives us the growth momentum. So, this is not the only revenue visibility, we continue to burn and then add in the quarter. So, that is the first one. The second one of your question was around the seven new logos, it split across US and UK and all of them have different flavors, few of them we see as large strategic opportunities where we have had our insertion and what you call are so old foothold household, so it is at a toe

hold stage. You could have an engagement which is \$0.5 million to \$1 million kind of range, but these are the ones which spend upwards of \$50 million to \$100 million in our addressable space. So, the biggest excitement is about how do you actually get there, do a great job, create and then expand, what you call as land and expand. So, a lot of these logos are in the land space and then we expand. And the third one you had was on the DSO, if I remember correct. And I think this is a good reference, we continue to collect our cash in both the geographies with enough fervor, so this is a good reference to have.

**Moderator:** Thank you. Our next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

**Mohit Jain:** Sir, one thing on the margins side, our margin did not move up as much as it was expected for this particular quarter, so what are the incremental costs that you need to put in to get this kind of revenue growth and when should we expect this flow through effect of currency to get into EBITDA margins?

**Abhishek Singh:** So, Mohit, it is interesting to note that ours is an onshore business predominantly, 70% of our revenue is delivered onshore and 30% is only offshore. So, if you put it in context of when Brexit happened our margins really did not take in the shorts, we continue to hold the margin and expand it. So, there is a natural hedge and by the same token if the currency depreciated significantly it does not bring in a wind fall of margin expansion so to speak. Margin expansion is in the base of operational efficiency and maturing of the businesses. The 30 basis points that you see sequentially as far as operating EBITDA margins are concerned, that is the upward bias that I have always talked about. And all the investments that we have made, be it in sales, marketing or even the capability side, that is exactly what is helping us deliver this kind of momentum. So, I would say that the investments are all in the right realm and you see the returns of that.

**Mohit Jain:** What is the cost split for gross margin, you said it is 70-30?

**Abhishek Singh:** No, I said 70% of our revenue is onshore, so your currency depreciation would really not help if there is any kind of margin expansion, if you have significant onshore delivery base.

**Mohit Jain:** And on the SG&A side how would it be? Like some leverage should come through in the quarterly and currency depreciates at this space?

**Abhishek Singh:** Of course, you would have that for 30% of the business of which I would say 80% to 90% of that is hedged, you really do not have any upside coming in, the unhedged portion is essentially what would give you the upside, and it is very-very miniscule. But even to your question on the SG&A spend, the predominant SG&A base is also onshore.

**Mohit Jain:** Sir, second thing is on the fixed cost leverage side, so if you continue to grow this kind of 6% plus constant currency kind of a growth, so where do you think we can end towards the end of the year? Remove the currency part of it but do you intend to any change or this is going to be a flattish kind of a cost structure from here?

- Abhishek Singh:** I would take you on your first question, I would say we continue to excite and deliver. Now what that would yield in is anyone's guess, but that said it is an upward trajectory, we would like to leverage all the fixed costs as we are very-very aware and prompt on the investments we make. We repurpose our SG&A to ensure that it is contributing incrementally and the decision-making cycle is far shorter and crisper to ensure that there are no dead woods so to speak.
- Mohit Jain:** Sir, for this particular quarter, first quarter, 30 basis points incremental has entirely come from the currency side or is there a mix of fixed cost-plus currency into this?
- Abhishek Singh:** No, there is a fair bit of fixed cost and the margins coming from some of the programs maturing.
- Mohit Jain:** And second thing is on the US side, so what kind of full year number, now that it has been more than a year on the US side, what is the kind of full year growth number that you guys are looking at for the US business?
- Abhishek Singh:** Mohit, you would look at business in the context of the overall business. UK we have been there for 22 to 25 years, it is uberly mature, the brand is out there. In that context, US is just 18 months old. So, to say that I would have the same cause and effect or investment and return in the US geography would be little premature, not for anything else but it is a longer game, I have got one asset in digital commerce space, I am looking at adding few more assets which gives us the capability and gives us the base to grow the business. So, this quarter it came to party 4.5% or 4.2% sequential growth, 10% year-over-year growth. So, it is starting to show positive momentum.
- Mohit Jain:** I think this quarter is historically the best, is it?
- Abhishek Singh:** Yes, it is one of the better quarters for the retail business which is the consumer of digital commerce services.
- John Owen:** Similarly, as we said last time, I think US is still a nascent business for us as a market and I think you can over analyze those sampling points. So, I think year-over-year is a good trajectory, we have had a good Q1 and we are confident that we can keep the fundamentals of that going. Regarding investments and then getting returns on those in margin improvement, we are building a three to five-year plan, we are just redrafting our business plan for probably the next five years. So, a lot of this is about, we have done the transformation, we have built the process improvements, this is now about making a longer-term investment on what is the foundations that we can build really scalable consistent business. I think we have earned it right with nine quarters of predictability that we have now got those fundamentals. But we are not looking to make a margin enhancement at the expense of the long-term strategy.
- Mohit Jain:** Right. But in terms of this digital transformation piece that you have had in the US, the market would be growing at like 15% - 17% or is it like with our growth currently?

- Abhishek Singh:** The market is growing higher than what we have translated it and which is where our understanding and assessment was that you got to add some more capability to tap into the full spectrum of what market has to offer.
- Mohit Jain:** So, we can expect some acceleration towards the end of the year?
- Abhishek Singh:** Investment acceleration, revenue acceleration.
- Mohit Jain:** Last is this 20 million facility that you have taken in the UK, any specific use for that or...?
- Abhishek Singh:** So, half of that would be to repay, we have refinanced the debt and is at a very attractive rate compared to the ongoing rate that we had, so half of it would obviously be used for refinancing the existing one, remaining half would be about investing in the business, M&A would be the obvious one.
- Mohit Jain:** This the UK subsidiary right, the M&A would be from UK side or will it move to US?
- Abhishek Singh:** US is a step-down subsidiary, US is a subsidiary for UK, so it could be in UK or it could be in US.
- Mohit Jain:** The loan is in US dollars, is it?
- Abhishek Singh:** I stand corrected, it is in Pound.
- Mohit Jain:** So, should we assume the M&A could likely be in Pound?
- Abhishek Singh:** No, this is to service the debt and eliminate the cross-currency impact. So, if I take in dollar and I have the serviceability coming out of Pound then I have a cross currency exposure, we just eliminated that. So, I can buy asset anywhere, but I am servicing out of my cash generating unit which is right now UK, significant cash is coming out of UK as a business. And US is a subsidiary of UK, so it could be invested in UK, it could be invested in US.
- Mohit Jain:** But the repayment will happen in GBP, that is what you wanted to make sure, because cash generated is in GBP?
- Abhishek Singh:** That is right.
- Moderator:** Thank you. Our next question is from the line of Sanjay Satpathy from Ampersand Capital. Please go ahead.
- Sanjay Satpathy:** I essentially want to understand two things, your UK business which is continuing to grow pretty strong in the quarter, within that can you just tell us like how much has the Government business grown versus the others? And second thing that I just again want to ask, which others are asking, this US business where the growth, what could be the outlook and the margin which is also quite fluctuating in there, what should we look forward to?



**Abhishek Singh:** So, the growth in UK market has been fairly broad based, it has come from Government, it has come from financial services, retail has held on its own for sure in the geography, and the reasons are very obvious since in some of the earlier calls we had shared that late last year we landed couple of financial services client and over the last six months they have grown, so obviously they have given us the momentum. Government continues to be the mainstay and we are going horizontal into newer departments and we are also increasing our wallet share with the existing customers. So, the growth is fairly broad based in UK. To your second question about the US geography, I would echo John's sentiment that it is very nascent, and the investments are showing signs, but we will have to continue to invest and continue to grow that business because what is offered in the US is the opportunity is huge and TAISTech as a capability is not the only one which can help us grab that market.

**Sanjay Satpathy:** And the margin volatility is again due to the investment part?

**Abhishek Singh:** That is right.

**Sanjay Satpathy:** And just to get a bit more granularity on the US business, so you have been mentioning about client additions on an overall basis like seven clients a quarter, so is there anything to learn about how the client addition is in USA?

**Abhishek Singh:** So, the client addition in the US, at least in digital commerce space is very exciting for us because it has some of the proof points of the headless architecture and the microservices strategy that we are talking about. Essentially, with this strategy you have a customer for life, they are not just buying your digital commerce capability, but they are also buying a lot more of horizontal capability like testing, BI and analytics, BI and analytics is a natural extension of the digital commerce work that we do. And by that you could, and you would endeavor to have these customers for life. So, these additions are exciting.

**John Owen:** I think if you look at why we are more predictable is because we have invested in our account management two years ago. And that is the same strategy we are now executing in the US. So, our share of wallet in each of those customers is gradually moving up, which should give us more predictability, more consistency and we start cross sellers, Abhishek said we are now doing headless architecture which quite frankly builds on the knowledge, the technical knowledge we have from the digital commerce business but actually ties into our core capabilities and application development. We have taken one client on DevOps which we would not have, if it was under the TAISTech umbrella two years ago, that business would not have come to TAISTech. So, you can start to see early signs of focus on the customer, grow with the customer, increase our capability with that client and hopefully as we build that business and we get critical mass it will follow the same trajectory that we have now got in the UK. But I think it comes back to that comparing contrast, in the UK we are well known, we are a respected brand and we have been here 22 years. The US was still unknown in a massive market and we have not even been there 22 months. So, I think the strategy is right, we are starting to see encouraging signs. But I think to declare victory and to accelerate that is probably a little premature. But at a portfolio level we are continuing to deliver on our commitments quarter-over-quarter.

- Sanjay Satpathy:** Over last several quarters your quarter-on-quarter has been one of the best and also you have continuously reported strong growth in your order book. This is the first time that there is no growth, but you have tried to explain it in certain manner. Just want to know, is there anything to read there or you will sustain your quarter-on-quarter growth that you have been kind of delivering?
- Abhishek Singh:** That is our endeavor, Sanjay, the momentum should be sustained. And I would say that this is sometimes just the timing, you get into this quarter and UK would experience a lot of holiday timing here. You could have a little bit of a slowdown enclosure. So, the lead indicators are all in the right place and a lot of it is timing.
- Moderator:** Thank you. Our next question is from the line of Pranav Bhavsar from ASA Capital. Please go ahead.
- Pranav Bhavsar:** I wanted to know, in this current order book of Rs. 504 crore how much is from existing customers and how much is from new customers?
- Abhishek Singh:** That is a good dimension, I would say that it is predominantly constituted of the existing customers where our account management strategy has worked very well, and we are increasing our wallet share. The new customer, the hunting base is maturing as we speak.
- Pranav Bhavsar:** So, would you mind giving any percentage number or that is just a broad-based answer?
- Abhishek Singh:** I would say it is a broad-based answer, I really do not have the facts in front of me.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments.
- John Owen:** Thank you very much. Thank you for taking time to dial in today. I think as Abhishek said the fundamentals of our business are encouraging, the forward-looking indicators are encouraging. But I think if you followed us over the last nine quarters you will see a predictability, a consistency and I hope you are incredibly board, there are no surprises coming into this conversation. So, as a team and it goes back to some other questions, we are focused on controlling the things within our control. And that is about executing the strategy. We are growing into our capacity historically and that growth will also bring some operational challenge as we scale the organization, we have greater facilities. If I look at it there are three things that really drive clarity in the organization, one is we have clear purpose, we know we want to be the leader in enterprise digital transformation, and I think we have got the capability to do that. Two, we are starting to build those processes that allows us to build a scalable and resilient organization, so we don't plateau I think as some of the questions were indicating, we know how to scale this organization into the core DNA of the operating model. And finally we absolutely do have outstanding people that are passionate about delivering customer outcomes. So, I think that combination of strategy, process and the people are encouraging. But again, we will close where we started it, it is nice to be recognized by the industry as the mid-cap technology of the

year, we are very pleased with it. But I think as we have always said, we have only just started this journey, digital enterprise, transformation is going to be a massive market and it is going to open up new opportunities for companies like Mastek, our job is to grasp the opportunity and look forward with confidence. With that, I will close. And thank you very much.

**Moderator:**

Thank you. Ladies and gentlemen, on behalf of Mastek limited, that concludes this conference call for today. Thank you for joining us. And you may now disconnect your lines.